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ORIGIN EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 L-03 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01

FRB-03 OMB-01 /044 R

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EA/PHR:RWILNER

SDA:DWILLIAMS

USDA:GRATHELL

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P 312121Z JUL 75

FM SECSTATE WASHDC

TO AMEMBASSY MANILA PRIORITY

C O N F I D E N T I A L STATE 181076

E.O. 11652: N/A

TAGS:

SUBJECT: COTTON CONTRACT PROBLEM

REF: (A) MANILA 10221 (B) STATE 56328 (C) MANILA 3638

(D) MANILA 5966

1. MANILA 10221 RAISES A NUMBER OF QUESTIONS CONCERNING CONCEPT OF LETTERS OF ASSURANCE; EXCLUSIVE USE OF PHILIPPINE FLAG VESSELS TO SHIP COTTON, QUALITY-WEIGHT SHORTAGE PROBLEMS AND SPECIFIC DIFFICULTIES WITH INDIVIDUAL MILLS AND SHIPPERS, E.G. YUPANGO - CIEC AND UNITED ASIA. THIS CABLE DISCUSSES TIMING OF OPENING OF L/D'S AND OUR CONCEPT OF LETTER OF ASSURANCES. SEPELS FOLLOW WITH DETAILED DISCUSSION ON OTHER ISSUES.

2. WE AGREE THAT TIMING IS IMPORTANT: ADDITIONAL DELAYS IN SHIPPING COTTON MEAN STILL HIGHER CARRYING CHARGES FOR U.S. SHIPPERS AND FAILURE TO MEET DEADLINES IN ASSURANCES TENDS TO VITIATE IMPACT OF THAT DOCUMENT. HOWEVER, ALL INDICATIONS ARE THAT, IF ANYTHING, STOCKS OF COTTON WILL DIMINISH
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SOME;HAT IN COMING MONTHS. U.S. AND WORLD PRODUCTION ARE DOWN CONSIDERABLY FROM LAST YEAR, AND PRICE HAS CLIMBED ABOVE LOWER LEVELS OF EARLY THIS YEAR SIGNALING SOME INCREASE IN DEMAND. THIS EXPECTATION IS REFLECTED AS WELL IN HIGHER

FUTURE PRICES. THUS, MARKET FOR COTTON MAY NOT IMPROVE
DRAMATICALLY IN SHORT RUN, BUT IT SHOULD NOT WORSEN EITHER.

3. WE ALSO CONCUR WITH YOUR PLANS TO RENEW PRESSURE TO
ACHIEVE FULFILLMENT OF CONTRACTS COVERED BY GOP LETTER OF
ASSURANCES. TO ACHIEVE MAXIMUM COMPLIANCE WITH WRITTEN
ASSURANCES, WE BELIEVE IT (1) REASONABLE TO EXPECT GOP
TO LIVE UP TO THOSE ASSURANCES AND (2) NECESSARY TO PRESS
RESPONSIBLE GOP OFFICIALS WHEN THEY DO NOT TAKE EFFECTIVE
MEASURES TO DO SO. IT IS STILL A LIVE TEMPTATION FOR
MILLS NOT TO FULFILL HIGH-PRICE CONTRACTS, AND SOME MILLS
WILL CERTAINLY ATTEMPT TO AVOID DOING SO.

4. OUR CONCEPT OF THE LETTER OF ASSURANCE IS AS FOLLOWS:
(1) ASSURANCES WERE PROVIDED BY GOP, REPRESENTED BY LEO
VIRATA, NOT BY DBP ALONE. WE THRASHED THIS ISSUE OUT IN
REFTELS (B), (C), AND (D). THUS, ANY GOP ACTION WHICH
FRUSTRATES ASSURANCES, ;HETHER IT BE TAKEN BY CENTRAL
BANK (E.G. PHILIPPINE FLAG ISSUE) OR ANOTHER GOVERNMENT
ENTITY MUST BE INTERPRETED AS ATTEMPT BY GOP TO THWART
INTENT OF THOSE ASSURANCES, AND REPRESENTATIONS SHOULD BE
MADE ACCORDINGLY. (2) ASSURANCES APPLY TO ALL CONTRACTS
LISTED IN ANNEX. WE WERE AWARE OF SEVERAL CONTENTIOUS
ISSUES, YUPANGO AMONG THEM, WHEN TEAM VISITED MANILA IN MAY,
AND, FOR THIS REASON, TEAM SOUGHT REPEATEDLY WITHOUT
SUCCESS TO MEET WITH WORKING LEVEL IN DBP TO RESOLVE THESE
PROBLEMS BEFORE ASSURANCES AND ANNEX WERE SIGNED. TEAM
WAS SO CONSTITUTED, WITH REPS OF STATE, USDA AND INDUSTRY,
THAT ALL INTERESTED PARTIES WERE REPRESENTED, AND NECESS-
ARY COMPROMISES COULD HAVE BEEN RAPIDLY REACHED. IT WAS
CLEAR THEN THAT IF THESE PROBLEMS WERE NOT RESOLVED THEY
;OULD REMAIN TO HAUNT US AS INDEED THEY HAVE. SINCE GOP
SIGNED ASSURANCES, WITH CONTENTIOUS CONTRACTS INCLUDED IN
ANNEX, IT SEEMS CLEAR THAT ASSURANCES SHOULD APPLY TO
THESE CONTRACTS AS TO OTHERS. ALTHOUGH AS EMBASSY IS AWARE
WE HAVE WORKED WITH SHIPPERS (NOTABLY CIEC) TO ASSURE THAT
REASONABLE CONCERNS OF MILLS (NOTABLY YUPANGO) ARE MET,
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ASSURANCES SHOULD NOT REPEAT NOT BE OPEN TO ANY INTERPRE-
TATION MILLS OR DBP CHOOSE TO GIVE THEM. (3) ASSURANCES
REPRESENT AN EFFORT TO PREVENT NUMEROUS BANKRUPTCIES AMONG
SHIPPERS AND, MORE IMPORTANT, CONSIDERABLE HARDSHIP AMONG
COTTON FARMERS AS A WHOLE. ASSURANCES ARE LIMITED IN TIME-
THEY DO NOT COVER HIGH PRICE CONTRACTS WRITTEN FOR DELIVERY
AFTER AUGUST 1, 1975, AND THEY DO NOT COVER CARRYING CHARGES
WHICH, IN MOST CASES, MILLS WILL PROBABLY SUCCEED IN TRANS-
FERING TO U.S. SHIPPERS, DESPITE CONTRACT PROVISIONS ON
THIS SUBJECT. THUS, CONTENT OF ASSURANCES ALREADY CONSTIT-
UTES A PERCENTAGE EFFORT, ALTHOUGH AN IMPORTANT ONE, AND
WE FIRMLY BELIEVE IMPLEMENTATION OF THE ASSURANCES SHOULD
BE VIGOROUS.

5. GENERALLY SPEAKING, PHILIPPINE MILLS HAVE PERFORMED

WELL IN PERIOD I, AND ACCORDING TO EMBASSY'S INFORMATION,
(PARA.5, REF. A), WILL PERFORM WELL IN PERIOD II. IN
GOOD PART, THIS ADMIRABLE RECORD IS DUE TO EMBASSY'S
ATTENTION TO PROBLEM. OUR CHIEF CONCERN NOW IS THAT ISSUES
FRUSTRATING ASSURANCES BE ACTIVELY PRESSED AND RESOLVED,
NOTABLY PHILIPPINE FLAG ISSUE, WHICH COULD SIGNICANTLY
DELAY SHIPMENT OF A LARGE PORTION OF COTTON ON THE ANNEX,
THE QUALITY-WEIGHT SHORTAGE PROBLEMS, AND CASES OF YUPANGO
AND UNITED ASIA WHICH INVOLVE SPECIFIC MILLS. DETAILED
COMMENTS ON THESE ISSUES FOLLOW SEPTELS. INGERSOLL

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<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE181076
Document Source: ADS
Document Unique ID: 00
Drafter: EB/ICD/FTD:JWILLIAMS
Enclosure: DG ALTERED
Executive Order: N/A
Errors: n/a
Film Number: D750265-0006
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507107/baaaaquq.tel
Line Count: 124
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2003 by CunninFX>; APPROVED <19 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ETRD, EPAP, RP, US
To: MANILA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006